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SUBJECT: PRT TIKRIT: BAYJI FERTILIZER PLANT BACK IN BUSINESS FOR NOW

Classified By: Classified by Stephanie Miley, PRT Team Leader, for reasons 1.5 (b) and (d).

¶1. (U) This is a PRT Tikrit, Salah ad Din cable.

¶2. (C) SUMMARY. The Bayji fertilizer plant, one of two large-scale petrochemical production sites in Iraq, resumed production at 45 percent of total capacity on November 21. The plant has operated only 15 days out of the entire 2006 calendar year due to sporadic energy supply, dilapidated equipment, and shortages of spare parts. Important to overall economic recovery, increased accessibility for farmers to nitrogen-based (urea) fertilizers at lower cost would significantly affect the agricultural sector by increasing yields for fewer dinars throughout Iraq. However, continued production at the plant is tenuous, and will require significant investment and support by GOI and the Ministry of Industry and Minerals (MoIM) to ensure success.
END SUMMARY.

Low Production the Norm

¶3. (C) The Bayji Fertilizer Plant, located on a sprawling industrial site twenty miles north of the city of Tikrit in Salah ad Din (SaD) province, has the potential to produce 35 percent of Iraq's total fertilizer demand. However, this potential has never been realized, largely due to intermittent power and natural gas supplies, spare parts deficiencies, and other mechanical issues. During a November 16 visit the plant director, Riyad Aldahas, explained that the operational output of the plant was approximately 80 percent of total capacity (1750 tons per day) in the early 1990s, diminishing to 50 to 60 percent in 1996 due to a shortage of spare parts, and finally ceasing in 2003 after the invasion. He stated that since its inception, the plant has never produced at full capacity. Despite occasional attempts to commence production, the plant was dormant from 2003 until this month. However, the visit served as the catalyst for a same day attempt to &warm-up8 the plant for partial capacity (the plant must run for four consecutive days before fertilizer is actually created, making the entire process five to six days). Aldahas reported to IPAO via email on November 23 that fertilizer was actually produced and distributed, physically confirmed by military personnel on the ground.

¶4. (C) Aldahas was hopeful that production would be maintained at 800 to 1000 tons per day (or approximately 45 to 55 percent of total capacity). However, he admitted that this would be a difficult if not impossible task without significant support from the MoIM (Ministry of Industry and Minerals), the USG, and private investors. He listed the following keys to ensuring productivity in priority order:

protection of the natural gas pipeline from Kirkuk, an uninterrupted supply of electricity, replacing the plant's decrepit equipment with new spare parts, obtaining a new boiler, and overcoming organizational and labor issues.

Sporadic Deliveries of Natural Gas, Electricity

¶ 15. (C) Aldahas and his chief engineer expressed their concern to IPAO that inconsistent supply of natural gas made it difficult, if not impossible, to maintain consistent production. AIF have attacked the pipeline from Kirkuk several times each year from 2003 until 2006, interrupting deliveries at critical times. Aldahas did state that Abdel Khadar, Director General of Production at the Bayji Oil Refinery, always guaranteed that the plant's gasoline and diesel fuel needs were met.

¶ 16. (C) Intermittent electric power grid failures also hinder production, estimated by Aldahas to cause at least 20 percent of the plant's disruption. Ten megawatts of electricity is required to support full capacity (seven megawatts for reduced capacity), so three generators could supply enough power to run the plant independently of the power grid. Electric power outages damage the plant's complex equipment and create huge inefficiencies; each time power is cut, four days of &warm-up are required to restart production.

Replacement Parts Needed, Labor Force Issues

¶ 17. (C) The lack of spare parts became an operational issue in 1991 and continues to this day. Aldahas stopped short of

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blaming sectarianism, but expressed frustration with the MoIM for being slow to replace older equipment. According to Aldahas, Bayji urgently requires a new boiler, repairs on its existing waste heat boiler, and additional compressors. After a tour of the plant, IPAO can concur that numerous pipes/pumps looked as though they might explode as he was walking underneath them.

¶ 18. (C) Aldahas acknowledged that organizing, motivating, and managing his labor force will be a major challenge. There are a total of 1500 full-time employees and 300 part-time employees who are living at the plant and have been idle) but still paid by MoIM - since 2003. Of these, about 1000 will be working under reduced capacity production. Interviews conducted by IPAO on November 16 illustrated that most of them see little to gain personally by restarting production. In addition to continuing to be a major cost for the facility, Aldahas stated that there were many workers he would like to replace, but did not have the authority to do so.

Distribution Issues

¶ 19. (C) Assuming that fertilizer is produced, a challenge remains in securing its delivery to Iraqi farmers. The plant sells the fertilizer to the Ministry of Agriculture, which contracts private trucking companies for distribution. Aldahas admitted that fertilizer transport is beset with rampant corruption and security problems; however he noted that he had little or no control of the fertilizer once it left the plant.

A Potential Environmental Disaster

¶ 10. (C) The repercussions stemming from the lack of

environmental safeguards and infrastructure in the Bayji industrial area are already significant and could worsen. The only functioning water treatment plant is often unable to treat the pollutants produced at the fertilizer factory, which are then dumped in adjacent evaporation ponds, resulting in numerous complaints of contamination by local residents. As increased future production will lead to greater amounts of waste products, this problem will likely become more acute unless a significant investment is made by the GOI and MoIM to build another water treatment plant, or at least expand the capacity of the present one. The Deputy Governor expressed to IPAO on November 16 his commitment to addressing environmental concerns and attempts to avoid a future catastrophe.

Access to Low Cost Fertilizer Critical for Iraqi Farmers

¶11. (C) Representatives of the Iraqi Farmer,s Union, an organization claiming to represent thousands of farmers, estimated on November 15 that the high price of inputs (such as fuel and fertilizer) depressed agricultural productivity by as much as 50 percent. This view was echoed on November 16 by the Deputy Governor of Salah ad Din (SaD) province, General (ret.) Abdullah H.M. Jubara, who expressed to IPAO that ensuring cheap fertilizer would be a key in revitalizing the local economy. General Abdullah, whose family,s farming experience stretches back for generations, explained that most farmers presently depend upon Iranian fertilizer imports, often more expensive and lower quality than the Iraqi product.

Comment

¶12. (C) Iraqi farmers regularly emphasize that the high price of inputs is the primary impediment to growth. Access to low-cost, high-quality fertilizer is critical to increasing crop yields and could be the first step in reducing unemployment and stimulating agri-business development in economically depressed areas such as Salah ad Din province. However, the upcoming boon in fertilizer may prove to be temporary if the GOI and MoIM do not place a high priority on technical and financial support for the fertilizer plant and related industry.

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